

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

| | | | |
|--|--------------------------------|---|-------------------|
| Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other | | Local Government Name: <u>Birmingham Area Cable Board</u> | County Oakland |
| Audit Date June 30, 2005 | Opinion Date August 5, 2005 | Date Accountant Report Submitted To State: December 19, 2005 | |

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

| We have enclosed the following: | Enclosed | To Be Forwarded | Not Required |
|---|--------------------------|--------------------------|-------------------------------------|
| The letter of comments and recommendations. | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Reports on individual federal assistance programs (program audits). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |
| Single Audit Reports (ASLGU). | <input type="checkbox"/> | <input type="checkbox"/> | <input checked="" type="checkbox"/> |

| | | | |
|--|--------------------|-------------|--------------|
| Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC | | | |
| Street Address 27400 Northwestern Highway | City Southfield | State MI | ZIP 48034 |
| Accountant Signature <i>Plante & Moran, PLLC</i> | | | |

Birmingham Area Cable Board

**Financial Report
with Supplemental Information
June 30, 2005**

Birmingham Area Cable Board

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Independent Auditor's Report

To the Board Members
Birmingham Area Cable Board

We have audited the basic financial statements of the Birmingham Area Cable Board as of June 30, 2005 and for the year then ended, as listed in the table of contents. These basic financial statements are the responsibility of the Authority's management. Our responsibility is to express an opinion on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the Birmingham Area Cable Board at June 30, 2005 and the results of its operations for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

Our audit was made for the purpose of forming an opinion on the basic financial statements taken as a whole. The required supplemental information listed in the table of contents is presented for the purpose of additional analysis and is not a required part of the basic financial statements of the Birmingham Area Cable Board. This information has been subjected to the procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

The accompanying financial statements do not present a management's discussion and analysis, which would be an analysis of the financial performance for the year. The Governmental Accounting Standards Board has determined that this analysis is necessary to supplement, although not required to be a part of, the basic financial statements.

Plante & Moran, PLLC

August 5, 2005

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Birmingham Area Cable Board

Governmental Fund Balance Sheet/Statement of Net Assets June 30, 2005

| | General Fund - Modified Accrual Basis | Adjustments (Note 7) | Statement of Net Assets - Full Accrual Basis |
|---|--|------------------------------|---|
| Assets | | | |
| Cash and cash equivalents (Note 2) | \$ 566,046 | \$ - | \$ 566,046 |
| Amount on deposit at the Village of Beverly Hills (Note 3) | 132,911 | - | 132,911 |
| Due from communities for franchise and PEG fees: | | | |
| Birmingham | 69,220 | - | 69,220 |
| Beverly Hills | 27,904 | - | 27,904 |
| Franklin Village | 9,129 | - | 9,129 |
| Bingham Farms | 4,490 | - | 4,490 |
| Fixed assets (Note 4) | <u>-</u> | <u>161,815</u> | <u>161,815</u> |
| Total assets | <u>\$ 809,700</u> | 161,815 | 971,515 |
| Liabilities | | | |
| Accounts payable | \$ 3,733 | - | 3,733 |
| Due to Bingham Farms - Administrative fee | <u>540</u> | <u>-</u> | <u>540</u> |
| Total liabilities | 4,273 | - | 4,273 |
| Fund Balance - Unreserved/Undesignated | <u>805,427</u> | <u>(805,427)</u> | <u>-</u> |
| Total liabilities and fund balance | <u>\$ 809,700</u> | | |
| Net Assets | | | |
| Invested in capital assets | | 161,815 | 161,815 |
| Unrestricted | | <u>805,427</u> | <u>805,427</u> |
| Total net assets | | <u>\$ 967,242</u> | <u>\$ 967,242</u> |

Birmingham Area Cable Board

Statement of Governmental Revenue, Expenditures, and Changes in Fund Balance/Statement of Activities Year Ended June 30, 2005

| | General Fund - Modified Accrual Basis | Adjustments (Note 7) | Statement of Activities - Full Accrual Basis |
|---|---|-------------------------|--|
| Revenue | | | |
| Franchise fees: | | | |
| Birmingham | \$ 103,456 | \$ - | \$ 103,456 |
| Beverly Hills | 43,033 | - | 43,033 |
| Franklin Village | 13,976 | - | 13,976 |
| Bingham Farms | 6,786 | - | 6,786 |
| PEG fees: | | | |
| Birmingham | 155,184 | - | 155,184 |
| Beverly Hills | 61,475 | - | 61,475 |
| Franklin Village | 19,965 | - | 19,965 |
| Bingham Farms | 9,693 | - | 9,693 |
| Comcast settlement | 52,500 | - | 52,500 |
| Other | 4,796 | - | 4,796 |
| Total revenue | 470,864 | - | 470,864 |
| Expenditures | | | |
| PEG operations: | | | |
| BCTV PEG | 100,000 | - | 100,000 |
| Grants | 150,000 | - | 150,000 |
| Comcast settlement payments | 32,813 | - | 32,813 |
| Capital outlay | 38,693 | (38,693) | - |
| Depreciation | - | 20,539 | 20,539 |
| Mobile van | 1,131 | - | 1,131 |
| Programming | 555 | - | 555 |
| Board expenditures: | | | |
| Recording secretary | 3,364 | - | 3,364 |
| Executive director | 30,275 | - | 30,275 |
| Operating expenses | 8,894 | - | 8,894 |
| Attorney fees | 17,203 | - | 17,203 |
| Audit fees | 5,765 | - | 5,765 |
| Insurance | 7,944 | - | 7,944 |
| Advertising and promotions | 3,443 | - | 3,443 |
| Memberships | 1,144 | - | 1,144 |
| Total expenditures | 401,224 | (18,154) | 383,070 |
| Excess of Revenue Over Expenditures/Change in Net Assets | 69,640 | 18,154 | 87,794 |
| Fund Balance/Net Assets - Beginning of year | 735,787 | 143,661 | 879,448 |
| Fund Balance/Net Assets - End of year | \$ 805,427 | \$ 161,815 | \$ 967,242 |

Birmingham Area Cable Board

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the Birmingham Area Cable Board (the "Authority") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies:

Reporting Entity

The Birmingham Area Cable Board (the "Authority") was created through an interlocal agreement between the City of Birmingham and the Villages of Beverly Hills, Bingham Farms, and Franklin (the "Parties"). The Authority was organized to obtain for the citizens of the Parties and to thereafter maintain for those citizens the highest quality of cable communication service at the lowest reasonable cost in accordance with franchise agreements and established ordinances. The Authority is operated by a 13-member board; seven representatives are appointed by the City of Birmingham, four representatives are appointed by the Village of Beverly Hills, one representative from the Village of Bingham Farms, and one representative from the Village of Franklin. As required by accounting principles generally accepted in the United States of America, these financial statements present the Birmingham Area Cable Board. No other component units have been combined into the Authority's basic financial statements.

Measurement Focus, Basis of Accounting and Financial Statement Presentation

The Authority's basic financial statements include both the Authority's full accrual financial statements and modified accrual financial statements.

Full Accrual Financial Statements

The full accrual financial statements (i.e., the statement of net assets and the statement of activities) are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

The statement of net assets includes and recognizes all long-term assets and receivables. The Authority's net assets are reported in two parts - invested in capital assets and unrestricted net assets.

Birmingham Area Cable Board

Notes to Financial Statements June 30, 2005

Note 1 - Summary of Significant Accounting Policies (Continued)

Modified Accrual Financial Statements

The modified accrual financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Authority considers revenue to be available if it is collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. Normally, expenditures are not divided between years by the recording of prepaid expenses.

Fixed Assets - Fixed assets are defined by the Authority as assets with an initial cost of more than \$500 and an estimated useful life in excess of a year. Such assets are recorded at historical cost or estimated historical cost. Donated assets are reported at estimated fair market value at the date of donation. Additions, improvements, and other capital outlays that significantly extend the useful life of an asset are capitalized. Other costs incurred for repairs and maintenance are expensed as incurred. Depreciation on all assets is provided on the straight-line basis over the following estimated useful lives:

| | |
|----------------|-------------|
| Production van | 10-20 years |
| Equipment | 10 years |

PEG Activity - The Authority's cable provider has established three channels for public, education, and government (PEG) use. The public and governmental channels are administered by the Authority and the educational channel is administered by the Birmingham School District. In order to fund the administration of these channels, the Authority receives financial support in the form of PEG fees from its cable provider in the amount of 3 percent of the cable provider's gross revenue. These funds are used on PEG-related projects. The PEG fees are allocated amongst the various member communities in the same manner as franchise fees. The member communities remit the PEG fees they collect to the Authority. A portion of these PEG fees can be allocated to the Parties and the Birmingham School District upon a grant request.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Birmingham Area Cable Board

Notes to Financial Statements June 30, 2005

Note 2 - Deposits

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The Authority is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The Authority has designated one bank for the deposit of its funds. At year end, the cash and cash equivalents reported in the basic financial statements consist entirely of deposits. The investment policy adopted by the Authority in accordance with Public Act 196 of 1997 has authorized investment in bonds and securities of the United States government and bank accounts and CDs, but not the remainder of State statutory authority as listed above. The Authority's deposit policies are in accordance with statutory authority.

The Authority's cash is subject to risk, which is examined in more detail below:

Custodial Credit Risk of Bank Deposits

Custodial credit risk is the risk that in the event of a bank failure, the Authority's deposits may not be returned to it. The Authority does not have a deposit policy for custodial credit risk. At year end, the Authority had \$466,046 of bank deposits (checking account) that were uninsured and uncollateralized. The Authority believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits. As a result, the Authority evaluates the financial institution with which it deposits funds and assesses the level of risk of the institution; only institutions with an acceptable estimated risk level are used as depositories.

Note 3 - Amount on Deposit at the Village of Beverly Hills

Franchise fees collected by the Parties are remitted to the Village of Beverly Hills. The Village of Beverly Hills uses these funds to pay for the Authority's monthly expenditures. The amount on deposit at the Village of Beverly Hills is the excess of the franchise fees collected over monthly expenditures.

Birmingham Area Cable Board

Notes to Financial Statements June 30, 2005

Note 4 - Fixed Assets

A summary of changes in fixed assets follows:

| | Balance - Beginning of Year | Additions | Deletions | Balance - End of Year |
|--------------------------|-----------------------------------|------------------|-------------|-----------------------------|
| Production van | \$ 189,844 | \$ - | \$ - | \$ 189,844 |
| Equipment | <u>28,191</u> | <u>38,693</u> | <u>-</u> | <u>66,884</u> |
| Total | 218,035 | 38,693 | - | 256,728 |
| Accumulated depreciation | <u>(74,374)</u> | <u>(20,539)</u> | <u>-</u> | <u>(94,913)</u> |
| Net book value | <u>\$ 143,661</u> | <u>\$ 18,154</u> | <u>\$ -</u> | <u>\$ 161,815</u> |

Note 5 - Budget Information

The annual budget is prepared by the Authority and adopted by the Authority's Board; subsequent amendments are approved by the Board. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2005 has not been calculated. There were no amendments during the current year.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America.

The budget has been adopted in total for revenues and expenditures; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. A comparison of actual results of operations to the budget as adopted is included in the required supplemental information budgetary comparison schedule - General Fund. Line item detail is shown in this budget for analytical purposes only. Total expenditures exceeded budgeted amounts by \$18,874 due to greater than anticipated capital outlay expenditures. In addition, the Authority did not budget for payments to communities to pass through settlement proceeds from Comcast. These expenditure overruns were offset by various positive spending variances as indicated in the required supplemental information.

Birmingham Area Cable Board

Notes to Financial Statements June 30, 2005

Note 6 - Risk Management

The Authority is exposed to various risks of loss related to property loss, torts, and errors and omissions. The Authority has purchased commercial insurance for claims relating to general liability and property. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

Note 7 - Reconciliation of Modified Accrual Financial Statements to the Full Accrual Financial Statements

Total fund balance and the net change in fund balance of the Authority's General Fund differs from net assets and change in net assets of the Authority's activities reported in the governmental fund balance sheet/statement of net assets and the statement of governmental revenue, expenditures, and changes in fund balance/statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and statement of activities versus the current financial resources focus of the General Fund balance sheet and statement of revenue, expenditures, and change in fund balance. The following are reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets:

| | |
|---|--------------------------|
| Total Fund Balance - Modified Accrual Basis | \$ 805,427 |
| Amounts reported in the statement of net assets are different because capital assets are not financial resources and are not reported in the funds | <u>161,815</u> |
| Net Assets - Full Accrual Basis | <u>\$ 967,242</u> |
| Net Change in Fund Balances - Modified Accrual Basis | \$ 69,640 |
| Amounts reported in the statement of activities are different because capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation: | |
| Capital outlay | 38,693 |
| Depreciation | <u>(20,539)</u> |
| Change in Net Assets - Full Accrual Basis | <u>\$ 87,794</u> |

Required Supplemental Information

Birmingham Area Cable Board

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2005

| | Original Adopted Budget* | Actual | Variance Favorable (Unfavorable) |
|--|--------------------------------|-------------------|--|
| Revenue | | | |
| Franchise fees: | | | |
| Birmingham | \$ 90,500 | \$ 103,456 | \$ 12,956 |
| Beverly Hills | 39,200 | 43,033 | 3,833 |
| Franklin Village | 12,500 | 13,976 | 1,476 |
| Bingham Farms | 8,300 | 6,786 | (1,514) |
| PEG fees: | | | |
| Birmingham | 133,100 | 155,184 | 22,084 |
| Beverly Hills | 60,700 | 61,475 | 775 |
| Franklin Village | 18,700 | 19,965 | 1,265 |
| Bingham Farms | 12,500 | 9,693 | (2,807) |
| Comcast settlement | - | 52,500 | 52,500 |
| Other | 6,850 | 4,796 | (2,054) |
| Total revenue | 382,350 | 470,864 | 88,514 |
| Expenditures | | | |
| PEG operations: | | | |
| BCTV PEG | 100,000 | 100,000 | - |
| Grants | 160,000 | 150,000 | 10,000 |
| Comcast settlement payments | - | 32,813 | (32,813) |
| Capital outlay | 10,000 | 38,693 | (28,693) |
| Mobile van | 1,500 | 1,131 | 369 |
| Programming | 15,000 | 555 | 14,445 |
| Board expenditures: | | | |
| Recording secretary | 3,700 | 3,364 | 336 |
| Executive director | 35,900 | 30,275 | 5,625 |
| Operating expenses | 7,600 | 8,894 | (1,294) |
| Attorney fees | 30,000 | 17,203 | 12,797 |
| Audit fees | 3,500 | 5,765 | (2,265) |
| Insurance | 8,000 | 7,944 | 56 |
| Advertising and promotions | 500 | 3,443 | (2,943) |
| Memberships | 650 | 1,144 | (494) |
| Contingency | 5,000 | - | 5,000 |
| Special projects | 1,000 | - | 1,000 |
| Total expenditures | 382,350 | 401,224 | (18,874) |
| Excess of Revenue Over Expenditures | - | 69,640 | 69,640 |
| Fund Balance - Beginning of year | 735,787 | 735,787 | - |
| Fund Balance - End of year | <u>\$ 735,787</u> | <u>\$ 805,427</u> | <u>\$ 69,640</u> |

* There were no budget amendments in the current year.

Note: Line-item budget information presented is for analytical purposes only. The budget was adopted in total for revenues and expenditures.